MULTIMEDIA UNIVERSITY*

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAC3654 – PROFESSIONAL ETHICS

(All sections/Groups)

4 JULY 2023
2.30 p.m – 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 4 pages with 4 questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) Professional accountants must act ethically when carrying out their duties and responsibilities. Acting ethically seems straightforward, but it is only sometimes crystal clear, as there are many grey areas, especially when it involves a dilemma. Even after conforming to a high standard of conduct, the dilemma is still unresolved and undecided. Some decisions require prioritising and choosing between competing principles and values.

Required:

Illustrate briefly the framework of ethical decision-making. (5 marks)

b) Stanley is a senior accountant at a large corporation. He has been with the company for over ten years and has worked up to his current position. Over the years, Stanley has observed many unethical practices within the accounting department. He has seen his colleagues manipulate financial statements, withhold information from auditors, and engage in fraudulent activities. Despite his concerns, Stanley has kept quiet and continued to do his job. He has always believed that it is not his place to challenge his superiors or to question their decisions. One day, Stanley's supervisor asks him to create a false invoice to cover up an unauthorized payment made to a vendor. Stanley is conflicted, as he knows this is unethical and potentially illegal. However, he also worries that he could lose his job or face other repercussions if he refuses. Stanley is faced with a moral dilemma and must decide what to do.

Required:

i) Briefly explain three (3) stages of Kohlberg's theory of moral development. (4 marks)

ii) Discuss how might Kohlberg's theory of moral development help explain his decision-making process. (8 marks)

c) Most of the ethical theories were developed by Western scholars, which explain an ethical action or ethical decision in different perspectives. List any FOUR (4) of the ethical theories and briefly illustrate each.

(8 marks)

[Total: 25 marks]

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QUESTION 2

Sejara Sdn Bhd is a publicly listed company in Malaysia. The company has been experiencing financial difficulties due to weak economic conditions, and its board of directors has been pressured to turn the company around. The board has decided to restructure the company's operations and implement cost-cutting measures to address the situation. The board also decides to approve a related-party transaction between the company and a director's private company, which will provide services to Sejara Sdn Bhd at a below-market rate.

Required:

a) Discuss whether the board of directors of Sejara Sdn Bhd complied with the principles of the Malaysia Code of Corporate Governance and what steps should the board of Sejara Sdn Bhd have taken to comply with the Malaysia Code of Corporate Governance. (5 marks)

b) Explain how companies promote good corporate governance practices and protect the interests of their shareholders. (10 marks)

c) The audit committee is crucial in promoting good corporate governance practices and ensuring transparency and accountability in financial reporting. Discuss the importance of the audit committee in corporate governance. (10 marks)

[Total: 25 marks]

QUESTION 3

After graduating from Multimedia University, Mr. Vincent works with a few audit firms in Kuala Lumpur. Currently, he is an audit manager at SR Tan & Associates. One of the business clients, Borneo Credit Sdn Bhd (BCSB), is a financial institution which provides a range of financial services to its clients. SR Tan & Associates has been auditing BCSB for nearly five years.

Two months before the year end of 2022, BCSB's chief accountant, Mr. Ahmad resigned and the post is left vacant until the year's end. The management decided a new chief accountant will join on January 2023. The new finance director of BCSB, Datuk Robin, suggested to Mr. Vincent that any audit team member from SR Tan & Associates can be seconded to BCSB for two months to act as the temporary chief accountant.

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Upon request by Datuk Robin the finance director, Mr. Vincent went through the list of the audit team members, hoping to get a name he could propose to Datuk Robin. Interestingly, he found out a number of the audit team members currently have an account with BCSB, and one team member has a personal loan with the institution. Furthermore, Datuk Robin is the brother-in-law of the audit engagement partner.

BCSB has received a call for a tax audit from the Inland Revenue Board of Malaysia. Since SR Tan & Associates also offer tax consultancy services, BCSB offers the audit firm to represent the company in case of any negotiations or taxation issues during the audit. BCSB offers reasonable fees, slightly higher than fees received on external audit work.

Datuk Robin extended an invitation to the company's annual dinner to the audit engagement partner and the audit team members. It is to be held in May 2023. He also mentions lucky draws and awards, which will be open to all attending the event.

Required:

a) Briefly explain each of the FIVE (5) fundamental principles of Section 110 of the MIA-By-Laws. (10 marks)

b) Based on the situation described above, discover and illustrate FIVE (5) ethical threats which may affect the independence of SR Tan and Associate's audit of BCSB. (10 marks)

c) For each threat illustrated in (b), suggest how it might be reduced to an acceptable level. (5 marks)

[Total: 25 marks]

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QUESTION 4

Aman Corp is a medium-sized accounting firm that provides audit, tax, and consulting services to a diverse client base. The company's code of conduct requires all employees to act with integrity, independence, and objectivity and to avoid conflicts of interest. The company also has a policy that requires employees to disclose any actual or potential conflicts of interest to the company's management. John is a senior accountant at Aman Corp who has been assigned to lead an audit engagement for TYU Ltd, a publicly-traded company in the manufacturing industry. John is excited about this opportunity as it could help him to secure a promotion and increase his compensation However, John has a personal relationship with the CFO of TYU Ltd, who is also his close friend. The CFO has previously helped John secure a loan and has invited him to several social events. John worries that this personal relationship could compromise his independence and objectivity in the audit engagement.

Required:

a) Explain the ethical principles that John should consider when facing a conflict of interest in the audit engagement for TYU Ltd. (6 marks)

b) Discuss the potential risks and consequences of a conflict of interest in the audit engagement for both Aman Corp and TYU Ltd. (4 marks)

c) Evaluate the effectiveness of Aman Corp's code of conduct and policy on conflicts of interest in preventing and addressing conflicts of interest among its employees. (6 marks)

d) What actions should John take to address the conflict of interest in the audit engagement for TYU Ltd? (4 marks)

e) Discuss the impact of conflicts of interest on the public's trust in the accounting profession and how this can be mitigated. (5 marks)

[Total: 25 marks]

End of paper.